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POSTAL RATE COMMISSION
OFFICE OF THE CHIEF COUNSEL

September 16, 2005

Honorable Steven W. Williams, Secretary
Postal Rate Commission
901 New York Avenue, N.W.
Suite 200
Washington, D.C. 20268-0001

Dear Mr. Williams:

On April 15, 2005, the Commission issued its Opinion and Recommended Decision in Docket No. MC2005-1 recommending that the Governors accept the Postal Service's proposed Premium Forwarding Service (PFS) experiment.¹ On May 10, 2005, the Governors accepted that recommendation, and the Board of Governors established August 7, 2005, as the experiment's implementation date.² As implementation materials were developed, the Postal Service determined that certain modifications to the experiment were necessary due to aviation security and international customs issues that had not been foreseen and addressed in the Postal Service's proposal or during Docket No. MC2005-1. These modifications, which are detailed below, were communicated to the field on August 26, 2005, and were published in yesterday's Postal Bulletin. This letter is intended to give notice of these modifications to the Commission and the participants in Docket No. MC2005-1, and to explain why they are necessary.

These developments do not affect the fundamental characteristics of the PFS experiment or require revision of the DMCS language that was recommended by the Commission and approved by the Governors. Nevertheless, they reflect operational and policy constraints that were not addressed on the record in Docket No. MC2005-1, and that have necessarily altered the Postal Service's expectations for certain elements of the experiment in ways that are not entirely consistent with the information provided during that case. While it would have been preferable to have identified the need for these modifications prior to the conclusion of Docket No. MC2005-1, the Postal Service believes that the modifications do not alter the status

¹ See Docket No. MC2005-1, Opinion and Recommended Decision.

² See Docket No. MC2005-1, Notice of the United States Postal Service Regarding Decision of the Governors.

of the experiment as recommended by the Commission and approved by the Governors. The modifications are described below.

First, PFS will not be available to APOs, FPOs, or U.S. territories or possessions that require a Customs Declaration.³ Any mailpiece that weighs 16 ounces or more and is destined to one of those addresses must be accompanied by a Customs Declaration. Thus, if PFS were available to those addresses, the Postal Service would be required to prepare a Customs Declaration for the PFS shipment, as well as most outside shipments. Preparation of a Customs Declaration requires personal knowledge of the contents of the mailpiece, however, and because the employees providing PFS in the primary address post office would be unaware of the contents of the mail being reshipped, they would be unable to complete the Declaration. This problem would be compounded by the fact that many APOs and FPOs are located in countries that prohibit certain mail based on its content.⁴ Since the Postal Service would be unaware of the contents of the PFS mail that is being reshipped and rerouted, there is a risk that the Postal Service would unknowingly ship prohibited matter to those countries. Overall, these customs issues make it impossible for the Postal Service to provide the full value of PFS to addresses that require Customs Declarations.⁵

Second, the Postal Service's aviation security (AVSEC) regulations have necessitated modifications to the treatment of Package Services pieces and Standard Mail parcels. Most significantly, the Postal Service will not reroute Standard Mail and Package Services pieces outside of the PFS shipment as Priority Mail postage due. The AVSEC regulations, which do not apply to Package Services pieces, are predicated on the fact that Package Services pieces are accepted for surface transportation. It would be inconsistent with these AVSEC regulations to upgrade those pieces to Priority Mail, either by placing them in the weekly PFS Priority Mail shipment or by individually rerouting them Priority Mail postage due. Package Services pieces, therefore, will be ineligible for placement in the weekly Priority Mail reshipment; instead, they will be immediately and individually rerouted

³ Addresses with a 969 ZIP Code require a Customs Declaration. These are U.S. Pacific Rim territories such as Guam, the Northern Mariana Islands, and Palau.

⁴ For example, Great Britain prohibits "horror comics" from the mail, while Kuwait prohibits "printed matter containing illustrations of nude or partly nude human figures." See International Mail Manual, Country Conditions for Mailing.

⁵ The Postal Service considered and rejected the possibility of offering a truncated form of PFS to these addresses. Such a service would be limited to the reshipment of letters to the temporary address (in such a case, the Customs Declaration could be filled out stating that the shipment contains "letters and correspondence"). PFS truncated in this way, however, would provide comparatively little value to customers at these addresses beyond that provided by forwarding or hold mail; this limitation would, furthermore, present considerable difficulties with regard to the disposition of non-letter mail. In light of the comparatively little value that PFS would provide to these customers, the Postal Service has decided to exclude these addresses from the PFS experiment. Of course, these customers can still use the no-cost alternatives to PFS.

postage due at the appropriate single-piece rate in the subclass of original entry. This will ensure that those pieces stay on surface transportation.⁶

These modifications to the treatment of Package Services pieces under PFS have been precipitated by concerns over upgrading single-piece Package Services mail to Priority Mail, and thereby potentially sending such pieces through the air. Standard Mail parcels, which are also accepted for surface transportation, are different from single-piece Package Services pieces in that they are always entered as part of bulk mailings, and are always less than 16 ounces. In light of these characteristics, the Postal Service will continue to place Standard Mail parcels into the weekly PFS shipment if they fit into the container chosen for that shipment.⁷ However, if such parcels do not fit, they will no longer be rerouted postage due at Priority Mail rates; instead, consistent with the fact that Package Services parcels will now be rerouted postage due at Package Services rates, Standard Mail parcels that do not fit in the PFS shipment will also be rerouted postage due at a Package Services rate, specifically the appropriate single-piece one-pound Parcel Post rate.⁸

Third, AVSEC and hazardous materials (HAZMAT) regulations necessitate an additional restriction on the contents of the weekly Priority Mail shipment: all pieces indicating "Surface Mail Only" or with hazardous material markings (e.g., "ORM-D") will be excluded from the PFS shipment. Instead, such mailable pieces will be individually rerouted, which ensures that they receive proper handling.

As noted above, these modifications adopted in implementing the PFS experiment depart from information developed on the record in Docket No. MC2005-1. There, the Postal Service indicated that PFS would be available to, but not from, APOs and FPOs;⁹ Package Services parcels would be placed into the weekly PFS shipment if they fit;¹⁰ and Standard Mail and Package Services parcels individually rerouted outside the PFS shipment would be sent Priority Mail postage due.¹¹ These modifications do not, however, affect the fundamental characteristics of PFS:

⁶ Because these pieces will no longer be reshipped via Priority Mail, the primary address post office will also stop rerouting these pieces 14 days before the end date specified by the customer, and instead will hold such pieces for pick-up by customers when they return to their primary address. This policy is designed to prevent such pieces from arriving at the temporary address after the end date.

⁷ This rationale would also seem to apply equally to the placement of Package Services parcels in the weekly PFS shipment if 1) they fit, 2) they were entered by a bulk mailer, and 3) they are less than 16 ounces. Making such Package Services parcels eligible for placement in the PFS shipment, however, would require additional employee time since the employee would have to determine whether the package is less than 16 ounces and whether it was sent by a bulk mailer. Standard Mail parcels, on the other hand, are by definition less than 16 ounces and entered by a bulk shipper, which means that their inclusion requires no additional employee time (the employee need only determine the parcel's mail class, which has always been a fundamental aspect of PFS since that determination governs the handling of the parcel).

⁸ This reflects the absence of a single-piece Standard Mail rate.

⁹ See Tr. 2/179. The record did not specifically address U.S. territories and possessions.

¹⁰ See, e.g., Tr. 2/280.

¹¹ See *id.*

substantially all of a customer's mail will be repackaged in a shipment sent via Priority Mail once a week. In addition, these modifications do not substantively alter the costing or pricing testimony presented by the Postal Service in Docket No. MC2005-1. While Package Services parcels will not be eligible for inclusion in the PFS shipment, the practical impact of this modification will be minimal considering that most Package Services parcels will be too large for the PFS shipment anyway.¹² Thus, this modification to the PFS experiment should only lead to an insignificant increase in the number of postage due parcels that a PFS customer receives.¹³

Finally, related to the fact that these modifications do not affect the fundamental characteristics of the PFS experiment, or alter the costing and pricing testimonies that underlie the experiment, the Postal Service does not believe that any alteration of DMCS section 937 is needed.¹⁴

Sincerely,

A handwritten signature in black ink, reading "Daniel J. Foucheaux, Jr." in a cursive script.

Daniel J. Foucheaux, Jr.

¹² As the Postal Service noted in Docket No. MC2005-1, the container chosen for the PFS shipment is based on the volume and dimensions of the letters and flats (including periodicals) received by the PFS customer during the week. See, e.g., Tr. 2/245-46. As such, most Package Services parcels will be too large for the PFS shipment. See Tr. 2/346. This policy reflects the fact that customers typically have control over when and where parcels are sent to them, and thus have the ability to have those parcels sent directly to their temporary addresses. See *id.* This, in turn, keeps the price of the weekly shipment charge lower. See Tr. 2/188.

¹³ In addition, the postage due charges for all Standard Mail and Package Services parcels sent outside the PFS shipment will now be lower since they will be sent at a Package Services rate rather than at a Priority Mail rate.

¹⁴ While the Postal Service recognizes that DMCS section 937.11's reference to the Priority Mail postage due reshipment of Standard Mail and Package Services parcels is no longer reflective of PFS, that section states only that such parcels "may be rerouted postage due, primarily Priority Mail postage due," and that such treatment would be "as specified by the Postal Service."